



# PART 1: OVERVIEW OF THE NEW RULES

Integrated Disclosures Rule  
*Effective August 1, 2015*

Welcome!



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## ***TILA-RESPA INTEGRATED DISCLOSURES RULE EFFECTIVE AUGUST 1, 2015***

- Fundamental mortgage lending disclosures that have been in place for more than 30 years are changing.
- The Consumer Financial Protection Bureau (CFPB) finalized amendments to Reg. X (RESPA) and Reg. Z (TILA) that integrate existing disclosures and take effect beginning with applications received on or after August 1, 2015.
- The new **Loan Estimate** (“LE”) combines the Initial Truth-in Lending disclosure and RESPA Good Faith Estimate (GFE).
- The new **Closing Disclosure** (“CD”) combines the Final Truth-in-Lending disclosure and RESPA HUD-1.
- These changes are not just about 2 new disclosures. There are fundamental workflow changes; particularly when it comes to closing.
- The following slides provide an overview of the new disclosures and comparisons to the existing.

**Application definition** has been revised and consists of six (6 items) submitted by the borrower (the lender discretion item #7 is no longer a part of the definition).

1. the consumer's name,
2. the consumer's income,
3. the consumer's social security number to obtain a credit report,
4. the property address,
5. an estimate of the value of the property, and
6. the mortgage loan amount sought.

*NOTE: The seventh, creditor chosen item to trigger disclosure has been removed from the definition of application. An application is considered complete when all six items are provided and the creditor then must disclose within the required timeframe.*

# Basic Overview of the Loan Estimate



## The Loan Estimate must:

- Provide consumers with a good faith estimate of credit costs and transaction terms
- Be in writing and contain the specific information such as:

Page 1: General	General information related to applicants, property, loan, and rate lock status; Loan Terms; Projected Payments during term of the loan; Costs at Closing, including the total estimated closing costs and the estimated cash to close.
Page 2: Costs	Loan Costs; Other Costs; Calculating Cash to Close; Adjustable Interest Rate Table (when applicable); Adjustable Payment Table (when applicable).
Page 3: Other	Contact information for creditor and loan officer, Comparisons, Other Considerations, and Confirm Receipt (optional).

# Loan Estimate: Differences from Existing Disclosures



- Mostly the same information, presented in a different format
- Information most helpful to consumer appears on Page 1
- Includes more useful information required by the Dodd-Frank Act and sought by consumers, such as estimated cash to close
- Costs can be itemized, but each category is subtotaled
- The annual percentage rate (APR) is disclosed on Page 3
- A new figure the Total Interest Percentage (TIP) is disclosed on the Page 3.
  - TIP: This is the total amount of interest that the borrower will pay over the loan term as a percentage of the loan amount.

<b>Comparisons</b>	<b>Use these measures to compare this loan with other loans.</b>
<b>In 5 Years</b>	\$56,582 Total you will have paid in principal, interest, mortgage insurance, and loan costs. \$15,773 Principal you will have paid off.
<b>Annual Percentage Rate (APR)</b>	4.274% Your costs over the loan term expressed as a rate. This is not your interest rate.
<b>Total Interest Percentage (TIP)</b>	69.45% The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

- Signature of consumer to confirm receipt is permitted (NEW) – this does NOT indicate Intent to Proceed.
- Certain information has been removed from Loan Estimate (e.g., finance charge, approximate cost of funds)

# Loan Estimate: Delivery Requirements



A creditor must deliver or place the Loan Estimate in the mail not later than the third **business day** after the creditor receives the consumer's **application**.

- If the Loan Estimate is not provided to the consumer in person, the consumer is considered to have received it three business days after it is delivered or placed in the mail.
- For purposes of providing the **Loan Estimate**, a **general business day** is a day on which the creditor's offices are open to the public for carrying out substantially all of its business functions (aka – "open for business day").

**Application definition** has been revised and consists of six (6 items) submitted by the borrower (the lender discretion item #7 is no longer a part of the definition).

1. the consumer's name,
2. the consumer's income,
3. the consumer's social security number,
4. the property address,
5. an estimate of the value of the property, and
6. the mortgage loan amount sought.

## Pre-Disclosure Restrictions and Charging Fees



- No fees may be imposed on a consumer in connection with the application before the consumer has received the Loan Estimate and indicated to the creditor an intent to proceed with the transaction. In addition, no payment information may be requested or held until intent to proceed is provided.
- Exception for a bona fide and reasonable fee for obtaining the consumer's credit report
- If a consumer is provided with a written estimate of terms or costs *before* receiving the Loan Estimate - certain specific requirement must be satisfied.
- May not require a consumer to submit documents *verifying* information related to the application *before* providing the Loan Estimate

# Loan Estimate: Good Faith Requirement (New Approach)



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Loan Estimate figures must be made in **good faith** and consistent with the best information reasonably available to the creditor at the time disclosed.

## To determine good faith:

- Look at difference between the estimated charges originally provided in the Loan Estimate and the actual charges paid by or imposed on the consumer
- Generally, if the charge paid by or imposed on the consumer **exceeds** the amount originally disclosed on the Loan Estimate it is **not in good faith** (exceptions below regarding tolerances).
- This is true regardless of whether the creditor later discovers a technical error, miscalculation, or underestimation of a charge

# Loan Estimate: Tolerance Limitations aka “Variances”



Zero Tolerance	10% Cumulative Tolerance	No Tolerance
<p>Certain charges are subject to <b>zero tolerance</b> – i.e., the creditor may never charge more than the estimated amount unless there is a “changed circumstance” (or other triggering event)</p> <ul style="list-style-type: none"> <li>§ Fees paid to the creditor, mortgage broker, or an affiliate of either</li> <li>§ Fees paid to an unaffiliated third party if the creditor did <b>not</b> permit the consumer to shop</li> <li>§ Transfer taxes</li> </ul>	<p>Some charges subject to a <b>10% cumulative tolerance</b>:</p> <ul style="list-style-type: none"> <li>§ Recording fees</li> <li>§ Charges for third-party services where                             <ul style="list-style-type: none"> <li>– The charge is not paid to the creditor or the creditor’s affiliate; <b>and/or</b></li> <li>– Consumer is permitted by the creditor to shop, but selects a third-party service provider on the creditor’s written list of service providers</li> </ul> </li> </ul>	<p>Certain charges are <b>not</b> subject to a tolerance limitation, meaning the amount charged to the consumer may exceed the amount disclosed on the Loan Estimate by any amount.</p> <ul style="list-style-type: none"> <li>§ Prepaid interest; property insurance premiums; amounts placed into an escrow, impound, reserve or similar account;</li> <li>§ Services required by the creditor if the creditor <b>permits the consumer to shop</b> and the consumer selects a third-party service provider not on the creditor’s <b>written list of service providers</b>; and</li> <li>§ Charges paid to third-party service providers for services not required by the creditor (may be paid to affiliates of the creditor).</li> </ul>

**IMPORTANT:** Creditors may only charge more than the amount disclosed when the original estimate, or lack thereof, was based on the best information reasonably available at the time of the disclosure.

# Revisions and Corrections to Loan Estimates



**General Rule:** Creditors are bound by the Loan Estimate, and may not issue revisions because they later discover technical errors, miscalculations, or underestimations of charges.

Creditors may only charge more than the amount disclosed when the original estimate, or lack thereof, was based on the best information reasonably available at the time of the disclosure.

Revised Loan Estimates permitted only in certain specific circumstances:

- **Changed circumstances** that occur after the Loan Estimate is provided to the consumer cause settlement charges to increase more than permitted
- **Changed circumstances** that occur after the Loan Estimate is provided to the consumer affect the consumer's eligibility for the terms for which the consumer applied or the value of the security for the loan
- Revisions are requested by the consumer
- Interest rate not locked when the Loan Estimate was provided, and locking the rate causes the points or lender credits disclosed on the Loan Estimate to change
- Consumer indicates an **intent to proceed** with the transaction more than 10 business days after the Loan Estimate was originally provided
- The loan is a new construction loan, and settlement is delayed

# Changed Circumstance



- A changed circumstance for purposes of a revised Loan Estimate is:
- An extraordinary event beyond the control of any interested party or other unexpected event specific to the consumer or transaction;
- Information specific to the consumer or transaction that the creditor relied upon when providing the Loan Estimate and that was inaccurate or changed after the disclosures were provided; or
- New information specific to the consumer or transaction that the creditor did not rely on when providing the Loan Estimate.
- **For example**, a changed circumstance may be war, natural disaster, or unexpected event specific to the consumer or the transaction (e.g., loss of employment)

- Creditor is required to deliver or place in the mail the revised Loan Estimate **within three general business days of a changed circumstance including the interest rate being locked** (when a lock Agreement is executed by the Creditor).
- If a **mortgage broker** receives a consumer's application, either the creditor or the **mortgage broker** may provide a consumer with the Loan Estimate. If a mortgage broker provides the LE, the creditor is still responsible for compliance. More information regarding these workflow considerations will be addressed in future webinars.
- An **Alternative Loan Estimate** may be used if the transaction does not have a seller (refinance transactions).
- Creditors will still be required to use the current GFE, HUD-1, and Truth-in-Lending forms for **applications** received prior to August 1, 2015. As the **applications** received prior to August 1, 2015 are closed, withdrawn, or cancelled, the use of the GFE, HUD-1, and Truth-in-Lending forms will no longer be used for most mortgage loans.

# Closing Disclosure: Overview



## The Closing Disclosure must:

- Generally contain the actual terms and costs of the transaction
- Be in writing and contain the information prescribed in 1026.38 such as

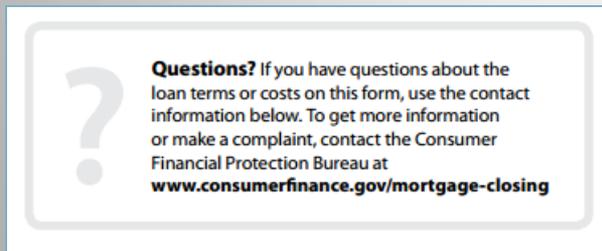
Page 1: General	Information, Loan Terms, Projected Payments, Costs at Closing
Page 2: Costs	Loan Costs, Other Costs
Page 3: Cash to Close and Summaries	Calculating Cash to Close, Summaries of Transactions
Page 4: Additional Loan Information	Loan Disclosures, Escrow Account, AP and AIR Tables (when applicable)
Page 5: Other Information	Loan Calculations, Other Disclosures, Contact Information, Confirm Receipt

Note: An Alternative Closing Disclosure may be used if the transaction does not have a seller (refinance transactions).

# Closing Disclosure: Differences from Existing Disclosures



- Mostly the same information, presented in a different format
- Page 1 mirrors the Loan Estimate Page 1
- Costs are itemized with columns indicating party and timing of payment (Page 2)
- Added information to show changes to costs and how cash to close was calculated (Page 3)
- “Fed Box” disclosures and more contact information for the consumer on Page 5



Contact Information		
	Lender	Mortgage Broker
Name	Ficus Bank	
Address	4321 Random Blvd. Somecity, ST 12340	

- Signature of consumer to confirm receipt is permitted

**NOTE:** Creditors will still be required to use the current GFE, HUD-1, and Truth-in-Lending forms for **applications** received prior to August 1, 2015. As the **applications** received prior to August 1, 2015 are consummated, withdrawn, or cancelled, the use of the GFE, HUD-1, and Truth-in-Lending forms will no longer be used for most mortgage loans.

# Closing Disclosure: Delivery Requirements



- A creditor is responsible for ensuring that the consumer (borrower) receives the Closing Disclosure no later than three specific business days before consummation (closing).

For the purpose of delivering the **Closing Disclosure**, **business day** means all calendar days *except* Sundays and legal public holidays.

**This timing requirement is new and will impact the scheduling of all closings.**

- If the Closing Disclosure is not provided to the consumer in person, the consumer is considered to have received it three business days after it is delivered or placed in the mail. Additional information regarding electronic delivery will follow.
- A creditor may contract with a settlement agent to provide the Closing Disclosure on the creditor's behalf. However, in this case the creditor is still legally responsible for the accuracy as well as any errors or defects.
- Consummation is defined under Regulation Z as the time that a consumer becomes contractually obligated on a credit transaction (the date the NOTE is signed).
- The settlement agent must provide the *seller* with the Closing Disclosure

# Closing Disclosure: Revisions and Corrections



**General Rule:** creditors must re-disclose terms or costs on the Closing Disclosure if certain changes occur to the transaction that cause the disclosures to become inaccurate.

- Three categories of changes require a corrected Closing Disclosure containing all changed terms:
  1. Changes before consummation that **require new three-business-day** waiting period:
    - Disclosed **APR** becomes inaccurate ( .125 up or down for fixed and .250 up or down for ARM);
    - **Loan product** changes (specific definition); or
    - Prepayment penalty is added
  2. There are other changes before consummation that do not require new three-business-day waiting period.
  3. Certain changes that occur after consummation require issuance of a revised CD.
- Consumer has right to inspect revised Closing Disclosure during the business day before consummation

# Closing Disclosure: Curing Tolerance Violations



## General Rule:

If the amounts paid by the consumer at closing exceed the amounts disclosed on the Loan Estimate beyond the applicable tolerance threshold:

- The creditor must refund the excess to the consumer no later than **60 days after consummation**, and
- The creditor must deliver or place in the mail a corrected Closing Disclosure that reflects the refund no later than **60 days after consummation**.

## Zero tolerance charges:

Any amount charged beyond the amount disclosed on the Loan Estimate must be refunded to the consumer.

## 10% cumulative tolerance charges:

To the extent the total sum of the charges added together exceeds the sum of all such charges disclosed on the Loan Estimate by more than 10%, the difference must be refunded to the consumer.

# What's Next?



- Remember this presentation is a general overview. There will be much more material distributed in the coming months.
- These changes are not just about 2 new disclosures. There are significant impacts on timing, delivery, workflow, policies and procedures.
- Throughout the process we will be seeking input from our broker partners.
- The rule is BIG:
  - 1,888 pages
  - 400 + changes
  - 1,122 business rules
  - 362 Data Elements

# Additional Resources



## Helpful Links:

[CFPB Implementation Page](#) which includes examples of both the Loan Estimate and Closing Disclosure (to access this link, right click and chose open hyperlink).

## Sample Loan Estimate:



Loan Estimate  
CFPB Sample

## Sample Closing Disclosure:



Closing  
closure CFPB Sam

Save The Date!



Integrated Disclosures Webinar Series  
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[March 18<sup>th</sup>, 3:00pm EST // Part 2: What's different w/ Integrated Disclosures](#)

April 16<sup>th</sup>, 3:00pm EST // Part 3: Focus on the Loan Estimate

May 14<sup>th</sup>, 3:00pm EST // Part 4: Focus on the Closing Disclosure

June 4<sup>th</sup>, 3:00pm EST // Part 5: FAQ's and Workflow

July TBD // Part 6: Updated Process

Thank you for your time today!



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